Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Hall	Analyst:	Brian Werking	Bill Number:	AB 233
Related Bills:	See Legislative History	Telephone:	845-5103	Introduced Date:	February 2, 2011
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: California YMCA Youth And Government Fund

SUMMARY

This bill would allow taxpayers to make voluntary contributions to the California YMCA Youth and Government Fund on their state personal income tax returns.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to allow California taxpayers to empower young people through an important program that motivates and inspires youth to become active citizens in our state.

EFFECTIVE/OPERATIVE DATE

This bill would be effective January 1, 2012, and operative as of that date. If another fund is removed, the fund could first appear on the 2011 personal income tax return filed on or after January 1, 2012.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Current federal tax law provides a check-off to direct $3 of a taxpayer's tax liability to the Presidential Campaign Fund. Designation of the $3 amount does not affect a taxpayer's tax liability or refund amount.

Current state tax law allows taxpayers to make contributions of their own funds (not tax liability) on their tax returns to any of the 15 voluntary contribution funds (VCF) listed on the 2010 state personal income tax return (return).

Board Position:			Department Director	Date
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With the following exceptions, VCFs remain on the return until they are either repealed or fail to meet their minimum contribution amount:

- Except for the California Seniors Special Fund, which has no sunset date, each VCF has a specific sunset date.
- Except for the California Seniors Special Fund, the California Firefighters Memorial Fund, and the California Peace Officer Memorial Foundation Fund, each VCF must meet an initial minimum contribution amount of $250,000.
- Except for the California Fund for Senior Citizens, each of the remaining VCF minimum contribution amounts is adjusted annually for inflation.

The annual inflation adjustment is based on the percentage change in the California Consumer Price Index. The Franchise Tax Board (FTB) is required to make the following two determinations for each VCF by September 1 of each calendar year:

1. The minimum contribution amount required for the VCF to remain on the return for the following calendar year, and
2. Whether estimated contributions to the VCF will be less than the minimum contribution amount for that calendar year.

If the FTB estimates that a VCF will fail to meet or exceed the minimum contribution amount for a calendar year, that VCF is repealed effective January 1 of that calendar year.

Current state law provides that if the number of contingent voluntary contribution designations[1] that are eligible to be added to the personal income tax return is greater than the number of designations removed, then the voluntary contribution designations may be queued and added to the return in order of the date of enactment.

<u>THIS BILL</u>

This bill would establish the California YMCA Youth and Government Fund and would allow taxpayers to designate their own funds (not tax liability) for contribution to the fund on their personal income tax returns in full dollar amounts of $1 or more. Each signatory on a joint return may make the contributions individually. The designations for any taxable year must be made on the initial personal income tax return for the taxable year and, once made, are irrevocable.
This bill would require the FTB to revise the personal income tax return to include a designation space for the fund beginning with the first taxable year that another voluntary contribution fund is removed. This designation could be added to the 2011 tax return filed on or after January 1, 2012.

[1] A contingent voluntary contribution designation is a voluntary contribution designation that contains specific language stating that it may not be added to the return until another voluntary contribution designation is removed from the return.

For the second taxable year the fund is on the return, this bill would require the fund to meet the $250,000 minimum contribution test. The FTB is required to estimate by September 1 of any calendar year after the first taxable year the fund appears on tax returns that contributions made under this bill will be less than $250,000 (as indexed for inflation). The law authorizing designations for this fund would be repealed if contributions made under this bill will be less than the minimum contribution amount.

This bill would allow the voluntary contribution designation to remain on the tax return for five years unless a later enacted statute deletes or extends that date.

Beginning with the third calendar year after the fund appears on the personal income tax return, the FTB would adjust the minimum contribution amount for the fund by September 1 of that year. The minimum contribution amount would adjust according to the California Consumer Price Index (also known as the CCPI), as specified.

This bill would specify that if payments and credits reported on the return do not exceed the taxpayer's liability, then the taxpayer's return shall be treated as if no designation has been made. If no designee is specified, a designated contribution amount would be transferred to the General Fund.

This bill would require the Controller to transfer money designated for this fund by taxpayers from the Personal Income Tax Fund to the California YMCA Youth and Government Fund. Upon appropriation by the Legislature, money would be transferred from this fund to the State Controller's Office and the FTB for reimbursement of the costs associated with administering this fund. The remaining funds would be transferred to the California YMCA Youth and Government Program. These funds would be used to support the California Youth and Government Program according to its bylaws.

This bill would allow the taxpayer to take an itemized deduction on their federal and state tax returns for the year in which the voluntary contribution is made.

IMPLEMENTATION CONSIDERATIONS

The department has identified the following concerns. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

This bill would allow the Legislature to allocate funds directly to a non-governmental entity. Typically voluntary contribution funds are allocated to a state agency for purposes of overseeing the expenditure of the funds. Without an allocation to a state agency, the funds will be prevented from reaching the California YMCA Youth and Government Program. The author may wish to add language that would allocate the funds to a state agency that would be responsible for administering the funds to the YMCA Youth and Government Program, such as the Department of Social Services.

LEGISLATIVE HISTORY

AB 1983 (Torrico, Stats. 2010, Ch. 587) allows taxpayers to designate their own money, not tax liability, to the Safely Surrendered Baby Fund.

AB 2017 (Hall, 2009/2010), similar to this bill, would have allowed taxpayers to make voluntary contributions to the California Youth Leadership Fund on their state personal income tax returns. This bill was vetoed by Governor Schwarzenegger on September 25, 2010. See Appendix A for the veto message.

SB 164 (Simitian, 2010/2011) would extend the repeal date of both the State Children's Trust Fund and the Endangered and Rare, Fish, Wildlife, and Plant Species Conservation and Enhancement Account to January 1, 2018.

SB 1076 (Price, Stats. 2010, Ch. 319) allows taxpayers to make voluntary contributions to the Arts Council Fund on their state personal income tax returns.

PROGRAM BACKGROUND

Fifteen voluntary contribution funds appear on the 2010 California personal income tax return. Total contributions to these funds have varied from approximately $3.2 million in 1990/1991 to approximately $5 million in 2009/2010.

OTHER STATES' INFORMATION

The states surveyed include: *Illinois, Massachusetts, Michigan, Minnesota, and New York.* These states were selected due to their similarities to California's economy, business entity types, and tax laws.

Illinois, Massachusetts, Michigan, Minnesota, and New York allow for taxpayer contribution designations on the personal income tax return; however, none of these states provide a voluntary contribution comparable to the one discussed in this bill.

FISCAL IMPACT

This bill would not impact the department's costs.

ECONOMIC IMPACT

<u>Revenue Estimate</u>

This bill would result in the following revenue losses:

Estimated Revenue Impact of AB 233 Effective On or After January 1, 2012 Enactment Assumed After June 30, 2011		
2010-11	2011-12	2012-13
No Impact	No Impact	-$15,000

This estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

If an itemized deduction is claimed for every dollar contributed to the fund and affected taxpayers have an average marginal tax rate of 6 percent, the estimated revenue loss of this bill would be approximately $15,000 annually ($250,000 x 6%).

LEGISLATIVE STAFF CONTACT

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Appendix A

BILL NUMBER: AB 2017
VETOED DATE: 09/25/2010

To the Members of the California State Assembly:

I am returning Assembly Bill 2017 without my signature.

This bill is contingent on the enactment of Senate Bill 516, which I cannot support. I would ask that the authors of these bills reconcile their efforts to support greater youth involvement in public policy without creating additional organizations when there are numerous organizations and entities already dedicated to working with youth from all backgrounds.

Sincerely,

Arnold Schwarzenegger